

Licensing in Lithuania

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Lithuania is presently one of the fastest growing economies in the world. According to the State's Department of Statistics, Lithuania's GDP grew more than 6% in 2001, 7% in 2002 and 8% in 2003. Lithuania's low inflation, low taxes (VAT is 18%, profit tax is 15%), good infrastructure, educated population and local laws in accordance with EU requirements make Lithuania one of the most attractive places for doing business in Eastern and Central Europe. Lithuania is joining the EU on May 1, 2004 which should contribute even more to the growth of the country. Such a fast-developing business environment should not remain *terra incognita* to companies involved in international licensing.

Lithuania's laws regulate patent, design, trademark, copyright and related rights license agreements, *Shrink-wrap* and *Click-wrap* arrangements for computer programs and databases and franchise agreements. Community Trademark and Community Design registrations with OHIM will also come in force in Lithuania on May 1, 2004.

Taxation of Licensor's Income derived from Lithuania

On January 1, 2002 Lithuania enacted a new Law on Profit (No. IX-675), which provides rules on taxation of licensor's incomes derived from Lithuania. The income of an enterprise established outside Lithuania but obtained from an enterprise within Lithuania from a patent, trademark or design license agreement shall be subject to a local withholding tax at a rate of 10%. The same 10% withholding tax also applies to incomes derived from franchising, transfers of *know-how*, transfers of copyrights and/or

related rights, transfer of computer programs with the right to use them for commercial and/or public demonstration purposes.

Patent license agreements

Patent license agreements must be in writing and have to be registered with the State Patent Bureau in order to be valid and enforceable. Any party to the patent license agreement can register the agreement with the State Patent Bureau. The same requirements apply to patent sublicense agreements.

Lithuania's Patent law provides for exclusive, non-exclusive licenses and public licenses. A public license occurs when the patent holder files a statement with the State Patent Bureau stating that the patent holder agrees to grant any person a license to use the patent in exchange for an agreed upon remuneration. In the filed statement, the patent holder has to indicate the terms of the license, namely the remuneration and the duration of the license. A person who wishes to obtain such a license, has to file a statement with the State Patent Bureau accepting the offered terms to acquire the licensee's rights. Such a license is non-exclusive. If a public license is offered, an exclusive license in respect of the same invention may not be registered and come into effect as long as a public license is being used. At the present time, 3 public licenses are registered with the Patent Bureau of Lithuania.

The Patent law also provides for the right of the Government of the Republic of Lithuania to grant a compulsory licensee's rights without consent of the patent holder if an invention protected by a patent relates to public needs, national security and protection of the public

health, development of economically significant sectors and when a patent holder refuses to issue a license. In such a case, the invention may be used only for that purpose for which the Government issued its decree, and the patent holder must be paid a reasonable remuneration. A compulsory license granted by the Government is not exclusive. A patent holder must be notified in writing about drafting of a governmental resolution affecting his patent and shall enjoy the right of appeal against this governmental resolution. So far there have been no granting of compulsory licenses in Lithuania by the Government.

Design license agreements

Lithuania's Design Law, enacted on January 1, 2003, is in accordance with the EU Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs.

The Design Law provides an owner of a registered design the right to grant an exclusive or non-exclusive design license. The Design Law does not provide for licensing of non-registered designs. There are no requirements regarding the written form of a design license agreement. Design license agreements do not have to be registered with the State Patent Bureau. The design licensor or licensee have to inform the State Patent Bureau of the fact of entering the license agreement only if they

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Table 1

	Action	Official Fee
Registered Designs	Register license, sublicense, changes for each design	m95
Patents/Utility Models	Register license, sublicense for each patent or utility model	m40
Registered Trademarks	Register license, sublicense, changes for each mark	m90

want to obtain the right to assert the license agreement against third parties. In this case, the licensor or licensee must provide the State Patent Bureau with a written notification (signed by both parties) or a notarized extract from the agreement, showing the fact of entering into the license agreement, the identity of the parties, number of design registration, type, term and territory of the license. The registration of the license agreement with State Patent Bureau is published in the official State Patent Bureau bulletin. The same rules *mutatis mutandis* apply to design sublicense agreements in Lithuania.

Trademark license agreements

Lithuania's Trademark law, enacted on January 1, 2001 was adopted in accordance to the First Council Directive of 21 December 1988 to approximate the laws of the member states relating to trade marks (89/104/EEC).

The Trademark Law provides that the holder of a registered trademark may grant an exclusive or non-exclusive license for all or any part of the goods and/or services described in the registration for the whole or any part of the territory of the Republic of Lithuania.

Cost of registering design, patent, trademark license agreements

The local attorney fee for registering a license agreement for each design, patent and trademark listed in the license agreement is about 120 EUR to 220 EUR. The official fee for registering a license agreement for each design, patent and trademark listed in the license agreement with the State Patent Bureau of Lithuania,

see Table 1.

Copyright license agreements

On March 21, 2003 a new Law on Copyright and Related Rights came into force in Lithuania, which includes the regulation of copyright license agreements. The holder of a copyright may grant an exclusive or non-exclusive license to use only the author's economic rights. Copyright license agreements have to be concluded in writing. There may be both exclusive and non-exclusive licenses. A license is deemed to be exclusive only if this term is expressly stated in the agreement. The law provides that the following items must be described in the copyright license agreement: the work; the author's rights, type of license; territory of validity; term of validity; amount of royalty, procedure and terms of payment; and dispute settlement procedure. Moreover, it is mandatory to indicate the ways of using the work in respect of which a license has been granted to a licensee, because if an agreement contains a phrase "all copyright property rights granted," such agreement will be deemed having been executed only for such ways of application of the work which are necessary for the parties for the achievement of the goal—the subject-matter of the agreement.

Conditions and execution of related rights (rights of performers, phonograms' producers, broadcasters, etc.) license agreements are subject *mutatis mutandis* to the conditions of copyright license agreements. Economic rights of a collective performer (a choir) can be transferred by a license agreement signed by the authorized representative of the performer(s) or its head.

Shrink-wrap and Click-wrap license agreements

The Law on Copyrights and Related rights provides for the mandatory application of *shrink-wrap* license agreements in respect of consumers if the license is in accordance with the following requirements:

- conditions of the license have been indicated in the Lithuanian language;
- consumer (licensee) can freely familiarize himself with conditions of the license before entering the agreement and opening the package.

Moreover, the law limits the contents of such type of license agreements: conditions of an agreement shall be written explicitly and unambiguously and shall satisfy the criteria of *bona fide* conditions laid down in the Law on the Protection of Consumer Rights. Licensee is entitled to appeal to court against such conditions of the agreement which he deems as not *bona fide* and may request revocation or replacement thereof and indemnification. Where a court adopts a favorable judgment, such conditions become null and void from the moment of the execution of the agreement, while the rest of agreement remains in force provided that the invalidated conditions are not essential conditions to the agreement.

The legality of *click-wrap* license agreements are subject to fewer requirements. The main requirement remains the same: *Click-wrap* will be deemed valid, provided that the consumer can read the agreement in electronic form before starting to use the program or database.

Conditions of invalidity of both *Click-wrap* and *Shrink-wrap* agree-

ments are subject not only to the above-mentioned requirements, but also to the general terms of invalidity of transactions as defined in the Civil Code of Lithuania. These in principle are identical to analogous principles established in UNIDROIT.

Franchise agreements

The legal regulations with respect to franchise agreements are provided in the Civil Code of Lithuania, enacted on July 1, 2001. Franchise agreements must be executed in writing and can be used against the third parties only if the fact of entering the agreement was duly registered with the Register of Legal Persons. The Civil Code establishes several mandatory obligations for both the franchiser and the franchisee. The obligations shall remain obligatory even if not incorporated into the franchise agreement. Therefore, the franchiser shall always be obligated to provide the franchisee with technical and commercial documentation and other information, which is necessary to implement the rights granted to the franchisee. The franchiser shall also have to grant all licenses agreed upon in the franchise agreement and guarantee due formalization of all the licenses therein. On the other hand, the franchisee shall be always obliged to use the granted rights only in accordance with the conditions of the franchise agreement, shall have to preserve due quality of goods or services under the franchise agreement, to follow franchiser's directions, such as decoration of interior of the premises, provide customers with additional services, which the customers could have reasonably expected, if he/she had ordered the services from the franchiser. The franchisee shall not disclose confidential information, and shall expressly inform customers that the franchisee's activity is maintained under the franchise agreement.

Where a license of an object of industrial property (a patent, trademark and/or design) is a part of a franchise agreement, the fact of the execution of the franchise agreement has to be registered in the

same Register in which the object of industrial property transferred by the agreement is registered.

At the present time, many well-known international brands, such as McDonald's, Holiday Inn, Office 1 and Southern Fried Chicken, are being used under franchise agreements in Lithuania. However, the numbers of businesses operating in Lithuania under local and regional brands under franchise agreements have substantially increased even more. For example, the following local and regional brands are being used in Lithuania, Latvia, Estonia and other nearby countries pursuant to franchise agreements: Reval for hotels (trademark is of Estonian origin), Lido for fast food (trademark is of Latvian origin), Pizza Jazz and Cili for self-service and pizza restaurants (trademarks are of Lithuanian origin), Baldu Rojus for furniture, KEMI for auto repair garages (both trademarks are of Lithuanian origin).

Protection of licensor's and licensee's rights

The legal acts which regulate patent license agreements stipulate that in case of patent infringement by third parties, the licensee is authorized to file the patent infringement claim with the court, on behalf of the licensor and/or patent holder, if the licensee can show that within three months from the date the licensee notified the licensor and/or patent holder of the infringement, the licensor and/or patent holder did not file a claim against the patent infringing party.

In cases where, for the purposes of damage prevention, immediate action must be taken, the licensee has the right to apply to court before the lapse of three-month period. Consequently, in the event of imminent damages, the licensee in principle need only formally send a notification to licensor and lodge the infringement claim in several days.

Legal acts regulating agreements of registered design and trademark license agreements do not lay down the term within which the licensor/rights holder of the rights has to file

an infringement claim. Licensor/rights holder is only given a priority right to do that. Therefore, if a license agreement provides for a specific period of time for exercising the licensor's priority right, after its completion, the licensee could, without permission or authorization of the licensor, file the infringement claim and proceed with the case under the local laws. The licensor would have the right to participate in the infringement action commenced by the licensee as a third party.

Customs border measures

Lithuania's eastern border with Belarus and southern border with the Kaliningrad area of Russia, will become the borders of the EU on May 1, 2004, and Lithuania at these borders will be responsible for protecting the EU common market from the import of counterfeit goods. Therefore, how well Lithuanian Customs performs its responsibility to protect the EU border from counterfeit goods will become an important issue for owners of well known brands. Lithuania's Customs has been using border measures to seize counterfeit goods at the border since 1999. Customs may seize counterfeits of all objects of industrial property, copyrights and related rights, provided the rights holder, before or shortly after the seizure, has requested Customs to protect its IP rights at the border.

Conclusion

Lithuania's legal system provides up to date regulations regarding the licensing of objects of industrial and intellectual property. Except for patent license agreements, entering into franchise agreements is simple and does not involve the observance of too many formal procedures mandated by the State. Liberal local regulations on franchise agreements have enabled owners of international, regional and local brands through franchising to rapidly expand their business in Lithuania and the Baltic States. We look forward to more business expansion through franchising after Lithuania, Latvia and Estonia join the EU on May 1, 2004.